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SUBJECT: AFTER 23 YEARS, BRAZIL RESUMES WORK ON ANGRA III NUCLEAR REACTOR

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¶1. (SBU) SUMMARY. More than two decades after halting construction of Brazil's third nuclear reactor at Angra dos Reis, the Brazilian Government has resumed work. The estimated cost for completing the construction of Angra III has jumped from USD 1.8 billion in 1986 to USD 3.3 billion. The government has decided to use the same contractor - Andrade Gutierrez - that won the contract initially in 1983. Areva and Siemens will provide the instrumentation and control equipment. END SUMMARY.

REVIVED AFTER 23 YEARS

¶2. (SBU) On April 29, the President of the state-owned nuclear power company Eletronuclear, Othon Luiz Pinheiro da Silva, confirmed to the Environment, Science and Technology, and Health (ESTH) Counselor that Brazil has resumed construction of Angra III. This is the third reactor to be built at Angra dos Reis, State of Rio de Janeiro, at the Central Nuclear Almirante Alvaro Alberto (CNAAA) complex. In 1983, the contractor, Andrade Gutierrez, won the bid to build Angra III, which was expected to cost USD 1.8 billion to complete when work was halted in 1986. Today, the cost is estimated at about USD 3.3 billion. The reactor is expected to come on line by 2014, and it is projected to generate about 1,350 MW.

¶3. (SBU) Construction of the first reactor (Angra I) began in 1972, and the reactor went on line in 1985 producing 657 MW. Work on Angra II began in 1976, but the government scaled down its efforts to complete the reactor in 1983 due to budgetary problems. In 1991, however, the Brazilian Government resumed construction of the reactor, and it went on line in 2001 producing 1,350 MW. In 1984, construction on Angra III began, however, work was halted in 1986 due to doubts surrounding the safety and viability of nuclear power, as well as the high cost of the project. Since then, the government reportedly has paid about USD 20 million a year to maintain the reactor's construction site, equipment, and storage facilities.

¶4. (SBU) The Brazilian Government envisions a significant increase in electricity generated from nuclear power plants. In its National Energy Plan 2030 and also its 10-Year Energy Plan 2016, the government calls for an increase in nuclear generating capacity from 2,007MW today to over 3,000MW with Angra III, and then adding 4,000 to 8,000MW more by 2030. There is already a scramble among the states of the Northeast for hosting one or more of the future reactors.

THE CONTRACTING

¶5. (SBU) In September 2008, the National Council on Energy Politics (Conselho Nacional de Politica Energetica CNPE) decided that

Eletronuclear could use the original contractor - Andrade Gutierrez - to resume construction of Angra III. Avera and Siemens will supply the instrumentation and control equipment for the plant. Areva is the result of the merger between the German company Siemens-KWU and the French company Framatome. The total cost to complete the reactor is estimated at USD 3.3 billion. In March 2009, the Brazilian environmental protection agency IBAMA approved the reactor's building licenses, completely opening the road for construction to begin. Earlier, the National Commission on Nuclear Energy (CNEN) had determined that the permission granted in 1983 to go forward with Angra III was still valid.

¶6. (SBU) During the first phase of construction in the 1980's, Eletronuclear purchased millions of dollars in reactor parts such as tanks, tubing, and valves, which have been in storage and will now be used as construction restarts. Eletronuclear intends to renegotiate the original contract with Areva and Siemens for instrumentation and control systems. Pinheiro said that the suppliers had not provided the instrumentation and control equipment before construction was halted, which means they can just obtain modern versions rather than be forced to choose between out-dated equipment and paying twice. Almost all the other equipment and supplies were purchased during the original building phase (and used or stored), or will be provided by Brazilian producers. While there does not appear to be opportunities for U.S. firms to bid on work on finishing Angra III, there should be other openings as Brazil implements its plan to build new reactors.

¶7. (SBU) The issues of the reactor's costs and contract agreements have sparked debate. As part of CNPE's decision to allow construction to resume, the Brazilian Government Accountability Office (Tribunal de Contas da Uniao, TCU) decided to revalidate the original building contracts signed back in 1983 between contractor Andrade Gutierrez and then Brazilian dictator Joao Baptista Figueiredo, rather than open the construction job back up for

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rebidding. Further, the press notes the close ties between Andrade Gutierrez and President Luiz Inacio Lula da Silva's party - the Workers' Party (PT). Andrade Gutierrez reportedly is a leading donor to the PT. In response, Brazilian officials claim that honoring the original contracts is an important aspect of maintaining the rule of law in Brazil and following good business ethics. The press also has questioned whether antiquated equipment and construction plans could lead to hazardous working conditions and problems with the general safety of the reactor. Pinheiro told ESTH Counselor that the equipment they have already purchased, such as pumps and valves, has retained its value, while the equipment they had not yet received was the more sensitive instrumentation and controls. In that case, Eletronuclear will use a proven, modern version of this equipment, though he wasn't looking for the absolute latest or cutting edge versions.

¶8. (SBU) COMMENT. It appears that the Brazilian Government now has an open path to completing Angra III. Obtaining the IBAMA license to construct and getting permission to revive the initial contract mean that substantial progress can be made this year. Building the other future reactors will be more challenging. This will require a CNEN license, an environmental license from IBAMA, and completing the procurement process. It is noteworthy that despite Environment Minister Carlos Minc's strong anti-nuclear sentiments, his agency - IBAMA - gave the green light for Angra III. END COMMENT.

SOBEL